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## ECONOMIC INTELLIGENCE REPORT

# SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JULY - 31 DECEMBER 1962

EIC R14-S14

February 1963

ECONOMIC INTELLIGENCE COMMITTEE

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**ECONOMIC INTELLIGENCE REPORT**

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1962**

**EIC R14-S14**

**ECONOMIC INTELLIGENCE COMMITTEE**

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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 July through 31 December 1962, constitutes the fourteenth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries. This report was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 12 February 1963.

For the purposes of this report, the term underdeveloped areas includes the following countries of the Free World: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1962

Summary\*

Current Trends

The decline in new Bloc economic aid extensions to underdeveloped countries since late 1961, particularly evident in the case of the USSR, continued into the second half of 1962. New credit extensions by Bloc countries during the latter period amounted to only \$210 million, bringing the total for the year to \$520 million, roughly half the annual extensions in 1960 and 1961 and the lowest annual commitment since 1957. By the end of 1962, Bloc economic assistance commitments totaled \$5.1 billion. Only 27 percent, or \$1.4 billion, of this amount thus far has been drawn. Drawings, which were relatively small during the early years of the program, have risen rapidly in recent years and amounted to a peak of almost \$400 million in 1962.

It is not possible to state with confidence the extent to which the reduction in new aid commitments is the result of (1) a decision by the USSR to lighten the burden of its own aid program in view of domestic economic difficulties and of the substantial backlog of unfulfilled commitments, (2) the adoption of a more selective approach, and/or (3) dwindling opportunities in newly emergent countries for agreements of the kind the USSR wishes to enter into. In this context it might be noted that the Soviet leadership has denied that there was any "cut-back" in its own aid program, pointing particularly to the increased expenditures represented by drawings under previous aid commitments.

For the immediate future the over-all Bloc economic assistance effort can be expected to continue at least at its present magnitude of about a half-billion dollars per year. If competing internal Bloc economic demands and political pressures make more imperative an effort to achieve maximum influence with minimum expenditure of tight investment goods, then devices other than project aid for economic development -- technical assistance, academic training, and military assistance programs -- can be expected to assume greater prominence. Over the longer run, Bloc aid may be expected to vary in accordance with the opportunities that arise, with the resources available, and -- perhaps most important -- with the evolving strategy of the Bloc with respect to underdeveloped countries.

\* See the chart, Figure 1, following p. 12.

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### Economic and Military Aid

The value of new economic credits furnished by the Bloc in the second half of 1962 declined by almost one-third from the previous 6-month period. The European Satellites accounted for the major share of new Bloc aid for the first time since mid-1957, with a record level of almost \$180 million of new credit extensions. The value of new aid extended by the USSR dropped precipitously, to \$26 million. More than 40 percent of the economic aid extended by the Bloc in the second half of 1962 went to the traditionally large aid recipients -- Cuba, India, and the United Arab Republic (UAR). The addition of Algeria and Laos brought the total number of countries receiving Bloc economic assistance to 31.

During the second half of 1962 the USSR concluded new military aid agreements with India and possibly Yugoslavia and Yemen, bringing minimum total Bloc military aid extensions to underdeveloped countries to approximately \$2.9 billion. Deliveries of military equipment to Cuba,\* Ghana, Indonesia, Iraq, and the UAR under previous agreements were accelerated during the period, raising drawings on Bloc arms aid to at least 85 percent of the total known extensions.

### Technical Assistance

Of the 16,900 Bloc technicians in underdeveloped countries during the last half of 1962, 12,000 were economic technicians and 4,900 were military personnel. Reflecting the accelerated pace of Bloc military aid deliveries in recent years, the number of Bloc military technicians almost doubled during the period under review compared with an increase of only 25 percent in Bloc economic technicians. More than half the number of Bloc military personnel were located in Cuba and Indonesia, and almost three-fourths of the Bloc economic technicians were concentrated in the six countries of Cuba, India, Iraq, the UAR, Guinea, and Afghanistan.

During the last 6 months of 1962, about 8,050 nationals from underdeveloped countries enrolled in training programs in the Bloc -- the largest such increase since the inception of the program. Approximately 6,750 initiated academic and technical training, and almost 1,300 enrolled in Bloc military training programs. Reflecting the pattern of recent years, Indonesia and Cuba supplied most of the military trainees, Cuba and the UAR the bulk of the technical trainees, and Africa the largest share of academic trainees.

\* This report includes a preliminary estimate of Bloc military aid activities in Cuba.

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### Trade

Sino-Soviet Bloc trade turnover with underdeveloped countries during the first 6 months of 1962 reflected a trend evident since 1960 -- namely, a rapid acceleration of Bloc trade with Cuba and a more moderate increase in aggregate trade with all other underdeveloped countries. The 27-percent increase in Bloc trade with underdeveloped countries in 1962 over 1960 was small in comparison with the quadrupling of Bloc trade with Cuba during the same period. Similarly, during the first half of 1962, Bloc trade with all underdeveloped countries, including Cuba, increased about 18 percent, rising to almost \$1.9 billion, whereas Bloc trade with Cuba alone increased almost 60 percent.

As a result of the increase in Bloc-Cuban trade, Bloc trade with Latin America in the first half of 1962 increased about 43 percent compared with the first half of 1961. Elsewhere in Latin America, trade remained relatively stable with the exception of a moderate increase in Bloc-Brazilian trade. Bloc trade with both Asia and Africa showed increases of 12 and 25 percent, respectively, whereas trade with the Middle East declined slightly, reflecting a decrease in Bloc trade with the UAR. Trade with the underdeveloped countries of Europe remained relatively stable, although Bloc-Yugoslav trade declined about 4 percent.

The year 1961 brought some variations from former patterns in the commodity composition of Bloc trade with underdeveloped countries. Largely because of a sizable increase of Cuban sugar imports, Bloc imports of food products from underdeveloped countries doubled over the previous year and accounted for more than two-fifths of all Bloc imports from underdeveloped countries. Imports of cacao declined in 1961, reflecting primarily a sharp decrease in Bloc imports of Ghanaian cacao. Bloc imports of coffee continued to increase. The large proportion of crude materials in total Bloc imports, more than 40 percent, continued to be dominated by rubber and cotton.

Among Bloc exports to underdeveloped countries, the share represented by machinery and transport equipment continued to increase, accounting for almost one-fourth of all Bloc exports in 1961. Manufactured goods remained the second most important category of Bloc exports to underdeveloped countries -- about 29 percent -- although their share in Bloc exports declined from 41 to 29 percent compared with the previous year. Petroleum and petroleum products continued to comprise an important part of Bloc exports, with Soviet exports of these products accounting for about 15 percent of the total Soviet exports to underdeveloped countries.

### Latin America

During the latter half of 1962, Bloc economic activities in Latin America were concentrated largely on two different fronts. In Cuba

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the USSR was interested in improving that country's economic situation in support of its roles as a Communist outpost in the Western Hemisphere and, for a time, as a Soviet military base. Elsewhere in Latin America the USSR emphasized a more normal development of economic relations by expanding trade and by granting development aid credits, particularly in Brazil.

The major Soviet effort in Cuba during the period was directed toward a substantial military buildup. It is believed that, at the height of this buildup, 22,000 or more Soviet military were in Cuba. Only a few thousand of these personnel departed when the weapons and equipment associated with the offensive missiles systems and the Il-28 jet bombers were removed.

It is not yet possible to determine what effect the missile crisis has had on the attitudes of the Cubans themselves regarding long-term relations with the Bloc. Castro suffered a serious personal affront, first by being made to appear a tool of Soviet militarism in consenting to the dangerous move into Cuba and then by being excluded from the high-level East-West negotiations that vitally affected Cuba's future and that finally resulted in the withdrawal of the very weapons for which he had compromised his independence. Castro may react by adopting a more independent political posture in regard to the USSR and attempting to recapture leadership of the revolutionary left within this hemisphere, much of which was estranged by his apparent subservience to Moscow.

Nevertheless, there is little that Castro can do to achieve economic independence from the Bloc, however much he may desire to reassert himself. With its growing import needs and its steadily declining export capacity, Cuba is falling increasingly into debt in its trade with the Bloc. During 1962 its imports from the Bloc exceeded its exports by about \$225 million. Bloc willingness to countenance this trade imbalance constituted its most important form of aid to Cuba, amounting to an ad hoc balance-of-payments loan. Next in terms of importance to the operation of the Cuban economy was the substantial number of Bloc technicians who were made available to Cuba to fill the gap left by the outflow of skilled technicians and managerial personnel alienated by the regime.

Soviet plans apparently envisage Cuba's increasing its capacity to feed itself and provide its own most basic necessities rather than pressing ahead rapidly toward industrialization. Thus such projects as a new fishing port and training programs to develop Cuba's fishing industry and longer range irrigation and power projects appear to have been receiving emphasis.

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In Brazil, chronic weaknesses in the export sector of the economy, financial difficulties with Western lenders, and skyrocketing inflation prompted a new look at the possibilities of expanding economic relations with the Bloc on the part of both the left-leaning Goulart government and the members of the business community. Brazil has just about exhausted its credit in Western financial quarters and, as a result, is particularly susceptible to Bloc offers of credit and barter exchange of goods.

A \$70 million credit agreement signed with Poland represented an important innovation in Brazil's economic relations with the Bloc. Almost half the value of the credit was allocated for the construction of a 200,000-kilowatt (kw) thermal electric powerplant and for the purchase of 50,000 tons of railroad rails. Talks were underway concerning utilization of the balance, possibly for an aluminum refinery and a helicopter assembly plant. It also was rumored that Brazil was close to an agreement with the USSR for the construction of a \$1 billion hydroelectric project in the south and for a large-scale industrialization program in the depressed Northeast.

The Brazilian Government has itself taken a series of moves designed to foster an expansion in Brazil-Bloc trade. At the top of the list was a campaign to secure ratification of the numerous trade treaties signed early in 1961 with most Bloc countries. The government also was exploring the possibility of obtaining a multilateral payments clearing arrangement with Bloc countries such as was granted to Cuba so that credits to Brazil with the account of one Bloc country might be used to pay debts owed to another. Finally, negotiations were in progress at the year's end with the USSR on a broad new trade and payments agreement to replace the agreement which expired in December.

Bloc activity in Bolivia continued to be spearheaded by Czechoslovakia. Although a contract with Czechoslovakia for an antimony smelter was again stalled, the Czechoslovaks were pressing for acceptance of an even more attractive proposal that involved free technical assistance in developing Bolivia's sources of hydroelectric energy. Included in the offer were the preparation of an over-all plan for a power system, preparatory studies and surveys, the preparation of final engineering plans, and the establishment of a technical training center. Bolivia was not receptive to this offer, and no official action was taken.

After more than 2 years of negotiations, Chile finally signed a contract to sell a small amount of copper to the USSR. Several sales by both government and private enterprises in Chile raised the total value of copper sales to the Bloc during the period to more than \$3 million. Weakening foreign trade prospects in markets of the Free World also stimulated Chilean interest in bilateral barter exchanges

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with the Bloc. A barter deal was concluded with Poland of 2 million liters of Chilean wine and 5,000 tons of fishmeal in exchange for 1,500 tons of Polish butter.

#### Middle East

The last half of 1962 witnessed the continued consolidation of Soviet Bloc positions in the Middle East and was highlighted by further deliveries of military aid, exploitation of the revolt in Yemen, and renewed attention to the Aswan High Dam project. In the Syrian Arab Republic, however, a reported Soviet offer to construct a dam on the Euphrates River was countered during the first few days of 1963 by an announcement that the West German Government had agreed to provide the financing and that France also may participate.

Before the recent revolt in Iraq, Bloc influence and possibilities for further gains were stronger in that country than in any other area of the Middle East. In Baghdad the Soviet Embassy maintained constant contact with Kassem's government and armed forces. Iraq sided with the USSR on all important international issues, and the USSR continued its support for Iraq's claim to Kuwait. Important deliveries of Soviet Bloc military equipment continued, bringing the total value of all such equipment delivered to Iraq since 1958 to \$340 million. Implementation of the 1959 economic aid agreement also was accelerated, and during the latter part of the year Kassem dedicated a number of new factories which had been built under Soviet aid.

In the UAR, Nasser continued to maintain a balanced course between East and West, and there was a slight shift toward more friendly relations with the United States. This shift stemmed from early US recognition of the republican government in Yemen and the need for types of economic aid not available from the Soviet Bloc. Soviet military aid continued to be substantial, and deliveries of equipment increased sharply. The major Bloc activity continued to be work on the Aswan High Dam. Increased concern that work was falling behind schedule resulted in vigorous efforts to speed up construction, including the replacement of both the Soviet and the UAR directors, the employment of some Western equipment as a result of Egyptian dissatisfaction with some of that furnished by the USSR, and a great increase in the number of Egyptian and Soviet personnel assigned to the project. The UAR also received small credits from Hungary and Poland during October.

Although the Bloc continued to maintain its presence in the Syrian Arab Republic through slow progress on various projects, the announcement during the first few days of 1963 that construction of the Euphrates Dam would be financed by West Germany and possibly France constituted a

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setback. Politically and militarily the Bloc made some progress. Pro-Communist and anti-Western elements which previously had been firmly suppressed by Nasser became increasingly vocal during 1962. Deliveries of military equipment and the establishment of military training programs were accelerated. Arms deliveries during the period under review included T-54 tanks, artillery, and large quantities of small arms and ammunition. It appeared that several advanced items contracted for in the military agreement concluded early in 1962 (for example, Tu-16 bombers and MIG-21 fighters) probably would be delivered during 1963.

The fall of the imamate in September created a climate in Yemen that offers the Bloc both prospects and problems in its drive to expand Communist influence on the Arabian Peninsula. Before the end of the imamate, both the USSR and Communist China reduced the tempo of their aid programs in Yemen, apparently deciding to wait for more propitious conditions before attempting the next advance. Both countries quickly recognized and supported the new Yemen Arab Republic, and although details on renewed Soviet aid to Yemen were not available, assistance was being provided or was under consideration for five projects. Reportedly the USSR also concluded a military aid agreement with Yemen about which few details are known. The commercial position of the USSR in Yemen, including its virtual monopoly as a supplier of certain products such as petroleum, continued to be important.

Elsewhere in the Middle East, Soviet Bloc economic activity was relatively limited. Greece continued to be heavily dependent on Bloc markets for its agricultural exports. Soviet relations with Iran improved markedly following an Iranian announcement that no foreign missile bases would be permitted on Iranian territory. Cultural and educational exchanges between Iran and the USSR increased in number, and several general Soviet offers of economic assistance were followed by reports that the Iranian Government was willing to discuss Iranian-Soviet collaboration in power and irrigation development, a Soviet offer to build grain silos, and an increase in trade. Bloc economic relations with Turkey remained relatively unchanged during the last 6 months of 1962 although a Soviet-assisted glass factory was finally completed in October.

### Africa

Bloc activities in Africa continued to increase in the last half of 1962, with major attention focused on new diplomatic, cultural, trade, scientific, and technical cooperation agreements. Especially noteworthy in this connection were such agreements reached with Nigeria, Tanganyika, and the UAM\* states. In the southern third of Africa, there has been an

\* See the footnote on p. 56, below.

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increase in Bloc efforts to stimulate and support nationalist forces to open opportunities for penetration. Particularly important in this context has been the establishment of a Bloc diplomatic presence (but, interestingly enough, no economic aid presence) in the Tanganyikan capital, Dar-es-Salaam, which is a major point of contact with southern African nationalist groups and a transit point for African students going to the Bloc. New aid commitments, on the other hand, were minimal during the period.

The number of Bloc economic technicians employed in Africa increased by about 600 during the last half of 1962 (40 percent accounted for by newly independent Algeria), and the number of African students in the Bloc increased by almost 80 percent. Also notable has been an increase in Chinese Communist economic and cultural activity in both East and West Africa. There was a significant development of shipping services to Africa and a partly successful effort to expand civil air routes. Shipping services from Bloc Baltic ports to West Africa increased, and Polish and East German lines began regularly scheduled service to a number of East and South African ports.

In spite of the initial advantage gained as a result of support for Algerian nationalism during the independence struggle, the Bloc did not move rapidly to consolidate its position of influence. Much of the circumspection manifested by the Bloc may have been induced by the confusion resulting from the struggle for power among the Algerian nationalist leaders. Several Bloc countries, however, have established diplomatic relations and made offers of economic assistance. Recognizing the important role of the military in the country, the Bloc can be expected to exploit opportunities through military assistance.

The close of 1962 saw a continued high level of Soviet Bloc economic activity in Ghana, in spite of occasional friction in day-to-day relations. Studies and surveys for a number of Bloc projects were either completed or initiated during the last 6 months. Although a shipment of Soviet arms, the first reported since the spring of 1961, arrived late in December, Ghanaian military leaders continue to be reluctant to accept large-scale Bloc military assistance. Nkrumah's decision to establish a permanent trade mission in East Berlin may have the important consequence of setting a precedent for other African countries.

The level of Bloc activity and influence in Guinea has remained static since early 1962, reflecting in part Guinean efforts to bring its relations with the East and West into better balance. The Guinean rapprochement with France is well advanced, substantially increased Western aid is on the way, and Western private capital again indicates interest in investments in Guinea.

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There were no major developments in Mali's economic relations with the Bloc. No new credits were extended, and the Bloc has shown no willingness to help Mali overcome its short-term financial difficulties. If France accedes to Mali's request to back its currency and to service its foreign exchange needs, Bloc penetration of the economy will be considerably less effective.

Poland extended to Morocco a credit of \$12 million to finance imports of capital equipment and made further progress in the construction of a sugar beet refinery. The USSR continued shipments of arms and military equipment and exerted pressure on the Moroccan Government to allow it to construct a shipyard at Tangier.

The USSR moved steadily ahead with its economic aid program in the Somali Republic and took the first steps involving military activities when it accepted 20 pilots and 30 maintenance personnel from the Somali Republic for training in the USSR. Implementation of Bloc credits has been confined largely to the final planning of projects; actual work is expected to begin on a number of undertakings in 1963.

Sudan's relations with Bloc countries did not change significantly during the period under review, but recent political and economic developments in the country may provide the Bloc with increased opportunities. Initial Sudanese inquiries for Western aid for the new 10-year economic development plan met with a less than enthusiastic response; if such aid is not forthcoming, the Sudanese may turn increasingly to the Bloc.

During the second half of 1962, there was a serious prospect of Soviet military assistance for the Republic of the Congo. Predicated on the withdrawal of the UN, the USSR reportedly was prepared to supply military support sufficient to end Katanga's secession. The successful UN military action in Katanga foreclosed this opening for the USSR, but future opportunities for Soviet penetration are likely to develop, as the problems of internal security and economic development can be expected to be chronic.

#### Asia

During the last 6 months of 1962 the Bloc continued to make important gains in Afghanistan and India, and there were increased possibilities of expanding its influence in Ceylon and Laos.

No new Bloc credits were extended to Afghanistan, but the Soviet position improved because of continued activity on numerous economic aid projects, an extensive military aid and training program, and strong political support to the Afghans in the conflict with Pakistan. The

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USSR did not hesitate to exploit Afghanistan's need for an export market by paying lower prices for Afghanistan's agricultural products and by pressuring for settlement of trade and aid accounts in hard currency earning exports, such as rugs and karakul. Soviet projects in oil exploration and industry development, the construction of grain silos, and improvements in the city of Kabul continued on schedule. New trade protocols were concluded with Poland and Czechoslovakia, and the continued influx of Soviet consumer goods insured the availability of local currency to implement the Soviet aid program.

The Sino-Indian border dispute in October 1962 did not noticeably affect Moscow's economic relations with India. In fact, following Soviet assurances of continued economic ties with India late in 1962, it appeared that the scope of Soviet economic involvement in India would increase. A protocol was signed to expand shipping between Soviet and Indian ports; by reciprocal arrangement, new consulates were established at Madras and Odessa; there were indications that Soviet-Indian cultural relations would continue to expand in 1963; and delivery of the MIG-21 aircraft that had been previously ordered by India from the USSR was assured, as were the facilities to manufacture them in India. The USSR continued to implement projects under old credit extensions, primarily in the fields of oil, steel, heavy machinery, and electric power. Expansion of the annual capacity of the Bhilai steel plant from 1 million to 2.5 million tons of steel ingots was initiated, and the Neyveli thermal electric power station in Madras State was inaugurated in August. Poland extended the only new Bloc credit during the period, \$32.5 million for the development of the coal industry. Indian trade with the Soviet Bloc increased sharply during 1962, but trade with Communist China declined to negligible proportions.

Settlement of the West Irian dispute with the Dutch in August 1962 was a setback to the objectives of the USSR in Indonesia. In December, there were an estimated 1,560 Bloc personnel in Indonesia; 75 percent of the promised Soviet Bloc military equipment had been delivered; and the total Indonesian indebtedness to the Bloc was \$825 million, of which more than \$750 million was for military aid. With the threat of war over, the Indonesian Government turned to the West for food, raw materials, and spare parts and tried to persuade Moscow to defer and reschedule its debt repayment for arms. As the year ended, Indonesia was preparing to receive a Soviet economic delegation to discuss possibilities for rescheduling Indonesian payments over a period of 25 years. In the negotiation, Indonesia will be subjected to Soviet pressure for special political advantages for the Indonesian Communist Party and for an increase in trade with the Soviet Bloc, which had already increased in 1962. Work on a number of Bloc projects continued during the period. The Asian Games Stadium and a subcritical nuclear assembly for Gadjah Mada University were completed in the fall.

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The Sino-Indian border conflict had reverberations in the Bloc's relations with two other Asian countries, Nepal and Pakistan. In Nepal, Communist China's aggression had a sobering effect on Nepalese officials and resulted in restrictions on Sino-Soviet cultural and propaganda activities in Nepal. During the review period the Bloc made moderate progress on five of its six projects in Nepal, however, and supplied some light aircraft and communications equipment. A special trading corporation to market Bloc goods and thus raise local currency to finance Bloc projects also was established.

Both Moscow and Peiping moved quickly to exploit Pakistan's extreme sensitivity to US and British arms aid to India and also to support domestic political opposition to SEATO and CENTO. Conditions appeared favorable at the end of the year for increased Pakistani trade with both Communist China and the USSR. Factors favorable to expanded cultural and propaganda activities also existed, and there was a possibility of increased Soviet aid for oil exploration.

A series of internal developments in Ceylon, centering mainly around political and economic instability, made conditions favorable for a further expansion of Bloc economic ties with that country. During the last 6 months of 1962, Ceylon extended its aid agreements with the USSR and Communist China for a further period of 5 years and made a rubber-rice payments agreement with Communist China. Ceylon's desire to continue to receive cheap rice under the rubber-rice deal was primarily responsible for the country's failure to give any official support to India in its conflict with Communist China. Slow but steady progress was made on a number of Bloc projects. Trade increased substantially, chiefly because of deliveries of Soviet petroleum products, Chinese purchases of rubber, and deliveries of Chinese rice. During the first 8 months of 1962, Ceylonese imports from and exports to the Bloc each increased about 40 percent in comparison with the comparable period in 1961.

Burma continued its neutralist policy during the last 6 months of 1962, but its relations with Peiping remained close. A Soviet credit for an irrigation dam was extended in August. An agreement for the purchase on credit of 1,000 tractors from Czechoslovakia was signed, and Rumania extended an undetermined amount of aid for the recently nationalized Burmese petroleum industry.

The de facto cease-fire in Laos transferred the East-West conflict to the political and economic sphere, and there were indications that the Bloc would use aid to influence the new Laotian Government. As of December 1962, Soviet aid included aircraft and aircraft technicians, \$3.9 million obligated for a dam, and an agreement to provide a hospital and a radio station. Peiping also extended \$4 million for various projects.

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There was relatively little Bloc activity in Cambodia during the period. Progress continued on the construction of a Soviet-built technological institute, but several Chinese Communist projects proved to be highly uneconomic.

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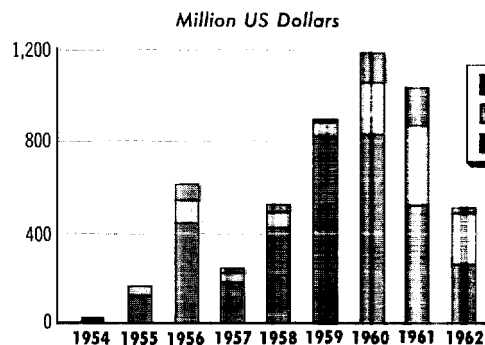
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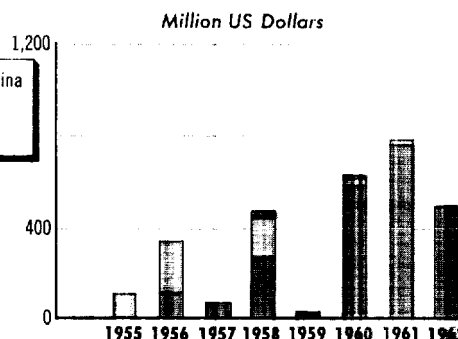
# BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

Selected Years, 1954-62

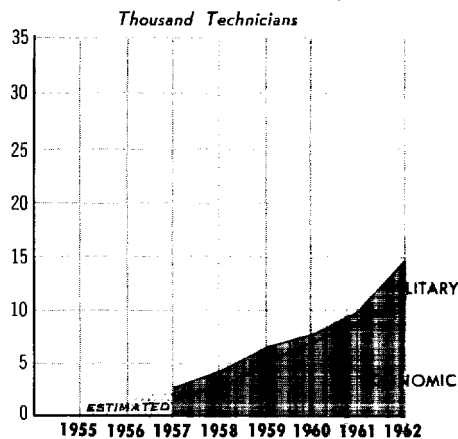
**BLOC ECONOMIC ASSISTANCE  
TO UNDERDEVELOPED COUNTRIES, 1954-62**



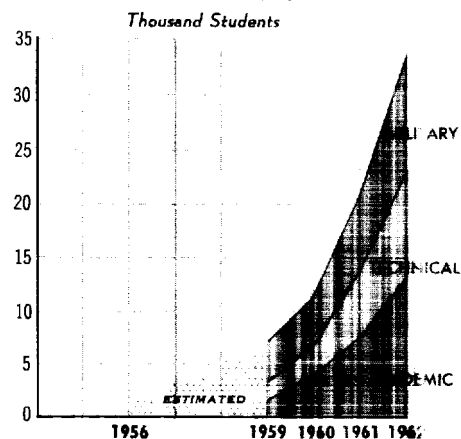
**BLOC MILITARY AID  
TO UNDERDEVELOPED COUNTRIES, 1955-62\*\***



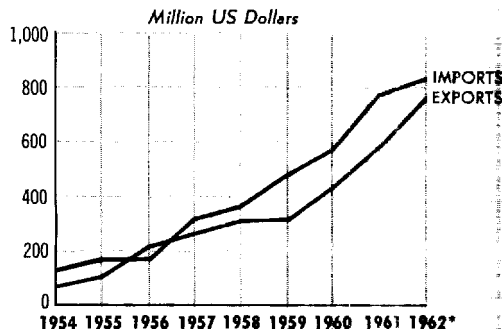
**BLOC ECONOMIC  
AND MILITARY TECHNICIANS  
IN UNDERDEVELOPED COUNTRIES, 1955-62**



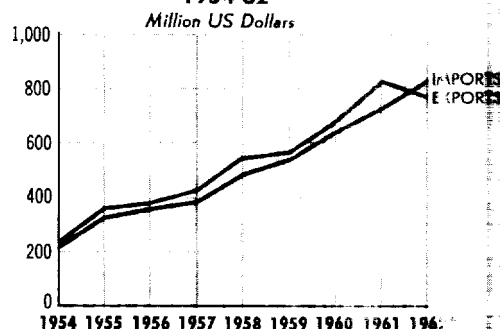
**STUDENTS  
FROM UNDERDEVELOPED COUNTRIES  
TRAINED IN THE BLOC, 1956-62**



**USSR TRADE WITH SELECTED  
UNDERDEVELOPED COUNTRIES, 1954-62**



**EUROPEAN SATELLITE TRADE WITH  
SELECTED UNDERDEVELOPED COUNTRIES,  
1954-62**



\*First 6 months of 1962 at an annual rate

\*\*Since Bloc Military Assistance for some countries cannot be distributed evenly

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### **SUMMARY**

(The complete text of this report has been published separately.)

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February 1963

**ECONOMIC INTELLIGENCE COMMITTEE**



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Summary\*

Current Trends

The decline in new Bloc economic aid extensions to underdeveloped countries since late 1961, particularly evident in the case of the USSR, continued into the second half of 1962. New credit extensions by Bloc countries during the latter period amounted to only \$210 million, bringing the total for the year to \$520 million, roughly half the annual extensions in 1960 and 1961 and the lowest annual commitment since 1957. By the end of 1962, Bloc economic assistance commitments totaled \$5.1 billion. Only 27 percent, or \$1.4 billion, of this amount thus far has been drawn. Drawings, which were relatively small during the early years of the program, have risen rapidly in recent years and amounted to a peak of almost \$400 million in 1962.

It is not possible to state with confidence the extent to which the reduction in new aid commitments is the result of (1) a decision by the USSR to lighten the burden of its own aid program in view of domestic economic difficulties and of the substantial backlog of unfulfilled commitments, (2) the adoption of a more selective approach, and/or (3) dwindling opportunities in newly emergent countries for agreements of the kind the USSR wishes to enter into. In this context it might be noted that the Soviet leadership has denied that there was any "cut-back" in its own aid program, pointing particularly to the increased expenditures represented by drawings under previous aid commitments.

For the immediate future the over-all Bloc economic assistance effort can be expected to continue at least at its present magnitude of about a half-billion dollars per year. If competing internal Bloc economic demands and political pressures make more imperative an effort to achieve maximum influence with minimum expenditure of tight investment goods, then devices other than project aid for economic development -- technical assistance, academic training, and military assistance programs -- can be expected to assume greater prominence. Over the longer run, Bloc aid may be expected to vary in accordance with the opportunities that arise, with the resources available, and -- perhaps most important -- with the evolving strategy of the Bloc with respect to underdeveloped countries.

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\* See the summary chart, Figure 1, following p. 12, and the summary table, p. 13.

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### Economic and Military Aid

The value of new economic credits furnished by the Bloc in the second half of 1962 declined by almost one-third from the previous 6-month period. The European Satellites accounted for the major share of new Bloc aid for the first time since mid-1957, with a record level of almost \$180 million of new credit extensions. The value of new aid extended by the USSR dropped precipitously, to \$26 million. More than 40 percent of the economic aid extended by the Bloc in the second half of 1962 went to the traditionally large aid recipients -- Cuba, India, and the United Arab Republic (UAR). The addition of Algeria and Laos brought the total number of countries receiving Bloc economic assistance to 31.

During the second half of 1962 the USSR concluded new military aid agreements with India and possibly Yugoslavia and Yemen, bringing minimum total Bloc military aid extensions to underdeveloped countries to approximately \$2.9 billion. Deliveries of military equipment to Cuba,\* Ghana, Indonesia, Iraq, and the UAR under previous agreements were accelerated during the period, raising drawings on Bloc arms aid to at least 85 percent of the total known extensions.

### Technical Assistance

Of the 16,900 Bloc technicians in underdeveloped countries during the last half of 1962, 12,000 were economic technicians and 4,900 were military personnel. Reflecting the accelerated pace of Bloc military aid deliveries in recent years, the number of Bloc military technicians almost doubled during the period under review compared with an increase of only 25 percent in Bloc economic technicians. More than half the number of Bloc military personnel were located in Cuba and Indonesia, and almost three-fourths of the Bloc economic technicians were concentrated in the six countries of Cuba, India, Iraq, the UAR, Guinea, and Afghanistan.

During the last 6 months of 1962, about 8,050 nationals from underdeveloped countries enrolled in training programs in the Bloc -- the largest such increase since the inception of the program. Approximately 6,750 initiated academic and technical training, and almost 1,300 enrolled in Bloc military training programs. Reflecting the pattern of recent years, Indonesia and Cuba supplied most of the military trainees, Cuba and the UAR the bulk of the technical trainees, and Africa the largest share of academic trainees.

\* This report includes a preliminary estimate of Bloc military aid activities in Cuba.

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### Trade

Sino-Soviet Bloc trade turnover with underdeveloped countries during the first 6 months of 1962 reflected a trend evident since 1960 -- namely, a rapid acceleration of Bloc trade with Cuba and a more moderate increase in aggregate trade with all other underdeveloped countries. The 27-percent increase in Bloc trade with underdeveloped countries in 1961 over 1960 was small in comparison with the quadrupling of Bloc trade with Cuba during the same period. Similarly, during the first half of 1962, Bloc trade with all underdeveloped countries, including Cuba, increased about 18 percent, rising to almost \$1.9 billion, whereas Bloc trade with Cuba alone increased almost 60 percent.

As a result of the increase in Bloc-Cuban trade, Bloc trade with Latin America in the first half of 1962 increased about 43 percent compared with the first half of 1961. Elsewhere in Latin America, trade remained relatively stable with the exception of a moderate increase in Bloc-Brazilian trade. Bloc trade with both Asia and Africa showed increases of 12 and 25 percent, respectively, whereas trade with the Middle East declined slightly, reflecting a decrease in Bloc trade with the UAR. Trade with the underdeveloped countries of Europe remained relatively stable, although Bloc-Yugoslav trade declined about 4 percent.

The year 1961 brought some variations from former patterns in the commodity composition of Bloc trade with underdeveloped countries. Largely because of a sizable increase of Cuban sugar imports, Bloc imports of food products from underdeveloped countries doubled over the previous year and accounted for more than two-fifths of all Bloc imports from underdeveloped countries. Imports of cacao declined in 1961, reflecting primarily a sharp decrease in Bloc imports of Ghanaian cacao. Bloc imports of coffee continued to increase. The large proportion of crude materials in total Bloc imports, more than 40 percent, continued to be dominated by rubber and cotton.

Among Bloc exports to underdeveloped countries, the share represented by machinery and transport equipment continued to increase, accounting for almost one-fourth of all Bloc exports in 1961. Manufactured goods remained the second most important category of Bloc exports to underdeveloped countries -- about 29 percent -- although their share in Bloc exports declined from 41 to 29 percent compared with the previous year. Petroleum and petroleum products continued to comprise an important part of Bloc exports, with Soviet exports of these products accounting for about 15 percent of the total Soviet exports to underdeveloped countries.

### Latin America

During the latter half of 1962, Bloc economic activities in Latin America were concentrated largely on two different fronts. In Cuba

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the USSR was interested in improving that country's economic situation in support of its roles as a Communist outpost in the Western Hemisphere and, for a time, as a Soviet military base. Elsewhere in Latin America the USSR emphasized a more normal development of economic relations by expanding trade and by granting development aid credits, particularly in Brazil.

The major Soviet effort in Cuba during the period was directed toward a substantial military buildup. It is believed that, at the height of this buildup, 22,000 or more Soviet military were in Cuba. Only a few thousand of these personnel departed when the weapons and equipment associated with the offensive missiles systems and the Il-28 jet bombers were removed.

It is not yet possible to determine what effect the missile crisis has had on the attitudes of the Cubans themselves regarding long-term relations with the Bloc. Castro suffered a serious personal affront, first by being made to appear a tool of Soviet militarism in consenting to the dangerous move into Cuba and then by being excluded from the high-level East-West negotiations that vitally affected Cuba's future and that finally resulted in the withdrawal of the very weapons for which he had compromised his independence. Castro may react by adopting a more independent political posture in regard to the USSR and attempting to recapture leadership of the revolutionary left within this hemisphere, much of which was estranged by his apparent subservience to Moscow.

Nevertheless, there is little that Castro can do to achieve economic independence from the Bloc, however much he may desire to reassert himself. With its growing import needs and its steadily declining export capacity, Cuba is falling increasingly into debt in its trade with the Bloc. During 1962 its imports from the Bloc exceeded its exports by about \$225 million. Bloc willingness to countenance this trade imbalance constituted its most important form of aid to Cuba, amounting to an ad hoc balance-of-payments loan. Next in terms of importance to the operation of the Cuban economy was the substantial number of Bloc technicians who were made available to Cuba to fill the gap left by the outflow of skilled technicians and managerial personnel alienated by the regime.

Soviet plans apparently envisage Cuba's increasing its capacity to feed itself and provide its own most basic necessities rather than pressing ahead rapidly toward industrialization. Thus such projects as a new fishing port and training programs to develop Cuba's fishing industry and longer range irrigation and power projects appear to have been receiving emphasis.

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In Brazil, chronic weaknesses in the export sector of the economy, financial difficulties with Western lenders, and skyrocketing inflation prompted a new look at the possibilities of expanding economic relations with the Bloc on the part of both the left-leaning Goulart government and the members of the business community. Brazil has just about exhausted its credit in Western financial quarters and, as a result, is particularly susceptible to Bloc offers of credit and barter exchange of goods.

A \$70 million credit agreement signed with Poland represented an important innovation in Brazil's economic relations with the Bloc. Almost half the value of the credit was allocated for the construction of a 200,000-kilowatt (kw) thermal electric powerplant and for the purchase of 50,000 tons of railroad rails. Talks were underway concerning utilization of the balance, possibly for an aluminum refinery and a helicopter assembly plant. It also was rumored that Brazil was close to an agreement with the USSR for the construction of a \$1 billion hydroelectric project in the south and for a large-scale industrialization program in the depressed Northeast.

The Brazilian Government has itself taken a series of moves designed to foster an expansion in Brazil-Bloc trade. At the top of the list was a campaign to secure ratification of the numerous trade treaties signed early in 1961 with most Bloc countries. The government also was exploring the possibility of obtaining a multilateral payments clearing arrangement with Bloc countries such as was granted to Cuba so that credits to Brazil with the account of one Bloc country might be used to pay debts owed to another. Finally, negotiations were in progress at the year's end with the USSR on a broad new trade and payments agreement to replace the agreement which expired in December.

Bloc activity in Bolivia continued to be spearheaded by Czechoslovakia. Although a contract with Czechoslovakia for an antimony smelter was again stalled, the Czechoslovaks were pressing for acceptance of an even more attractive proposal that involved free technical assistance in developing Bolivia's sources of hydroelectric energy. Included in the offer were the preparation of an over-all plan for a power system, preparatory studies and surveys, the preparation of final engineering plans, and the establishment of a technical training center. Bolivia was not receptive to this offer, and no official action was taken.

After more than 2 years of negotiations, Chile finally signed a contract to sell a small amount of copper to the USSR. Several sales by both government and private enterprises in Chile raised the total value of copper sales to the Bloc during the period to more than \$3 million. Weakening foreign trade prospects in markets of the Free World also stimulated Chilean interest in bilateral barter exchanges

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with the Bloc. A barter deal was concluded with Poland of 2 million liters of Chilean wine and 5,000 tons of fishmeal in exchange for 1,500 tons of Polish butter.

#### Middle East

The last half of 1962 witnessed the continued consolidation of Soviet Bloc positions in the Middle East and was highlighted by further deliveries of military aid, exploitation of the revolt in Yemen, and renewed attention to the Aswan High Dam project. In the Syrian Arab Republic, however, a reported Soviet offer to construct a dam on the Euphrates River was countered during the first few days of 1963 by an announcement that the West German Government had agreed to provide the financing and that France also may participate.

Before the recent revolt in Iraq, Bloc influence and possibilities for further gains were stronger in that country than in any other area of the Middle East. In Baghdad the Soviet Embassy maintained constant contact with Kassem's government and armed forces. Iraq sided with the USSR on all important international issues, and the USSR continued its support for Iraq's claim to Kuwait. Important deliveries of Soviet Bloc military equipment continued, bringing the total value of all such equipment delivered to Iraq since 1958 to \$340 million. Implementation of the 1959 economic aid agreement also was accelerated, and during the latter part of the year Kassem dedicated a number of new factories which had been built under Soviet aid.

In the UAR, Nasser continued to maintain a balanced course between East and West, and there was a slight shift toward more friendly relations with the United States. This shift stemmed from early US recognition of the republican government in Yemen and the need for types of economic aid not available from the Soviet Bloc. Soviet military aid continued to be substantial, and deliveries of equipment increased sharply. The major Bloc activity continued to be work on the Aswan High Dam. Increased concern that work was falling behind schedule resulted in vigorous efforts to speed up construction, including the replacement of both the Soviet and the UAR directors, the employment of some Western equipment as a result of Egyptian dissatisfaction with some of that furnished by the USSR, and a great increase in the number of Egyptian and Soviet personnel assigned to the project. The UAR also received small credits from Hungary and Poland during October.

Although the Bloc continued to maintain its presence in the Syrian Arab Republic through slow progress on various projects, the announcement during the first few days of 1963 that construction of the Euphrates Dam would be financed by West Germany and possibly France constituted a

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setback. Politically and militarily the Bloc made some progress. Pro-Communist and anti-Western elements which previously had been firmly suppressed by Nasser became increasingly vocal during 1962. Deliveries of military equipment and the establishment of military training programs were accelerated. Arms deliveries during the period under review included T-54 tanks, artillery, and large quantities of small arms and ammunition. It appeared that several advanced items contracted for in the military agreement concluded early in 1962 (for example, Tu-16 bombers and MIG-21 fighters) probably would be delivered during 1963.

The fall of the imamate in September created a climate in Yemen that offers the Bloc both prospects and problems in its drive to expand Communist influence on the Arabian Peninsula. Before the end of the imamate both the USSR and Communist China reduced the tempo of their aid programs in Yemen, apparently deciding to wait for more propitious conditions before attempting the next advance. Both countries quickly recognized and supported the new Yemen Arab Republic, and although details on renewed Soviet aid to Yemen were not available, assistance was being provided or was under consideration for five projects. Reportedly the USSR also concluded a military aid agreement with Yemen about which few details are known. The commercial position of the USSR in Yemen, including its virtual monopoly as a supplier of certain products such as petroleum, continued to be important.

Elsewhere in the Middle East, Soviet Bloc economic activity was relatively limited. Greece continued to be heavily dependent on Bloc markets for its agricultural exports. Soviet relations with Iran improved markedly following an Iranian announcement that no foreign missile bases would be permitted on Iranian territory. Cultural and educational exchanges between Iran and the USSR increased in number, and several general Soviet offers of economic assistance were followed by reports that the Iranian Government was willing to discuss Iranian-Soviet collaboration in power and irrigation development, a Soviet offer to build grain silos, and an increase in trade. Bloc economic relations with Turkey remained relatively unchanged during the last 6 months of 1962 although a Soviet-assisted glass factory was finally completed in October.

#### Africa

Bloc activities in Africa continued to increase in the last half of 1962, with major attention focused on new diplomatic, cultural, trade, scientific, and technical cooperation agreements. Especially noteworthy in this connection were such agreements reached with Nigeria, Tanganyika, and the UAM states. In the southern third of Africa, there has been an

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increase in Bloc efforts to stimulate and support nationalist forces to open opportunities for penetration. Particularly important in this context has been the establishment of a Bloc diplomatic presence (but, interestingly enough, no economic aid presence) in the Tanganyikan capital, Dar-es-Salaam, which is a major point of contact with southern African nationalist groups and a transit point for African students going to the Bloc. New aid commitments, on the other hand, were minimal during the period.

The number of Bloc economic technicians employed in Africa increased by about 600 during the last half of 1962 (40 percent accounted for by newly independent Algeria), and the number of African students in the Bloc increased by almost 80 percent. Also notable has been an increase in Chinese Communist economic and cultural activity in both East and West Africa. There was a significant development of shipping services to Africa and a partly successful effort to expand civil air routes. Shipping services from Bloc Baltic ports to West Africa increased, and Polish and East German lines began regularly scheduled service to a number of East and South African ports.

In spite of the initial advantage gained as a result of support for Algerian nationalism during the independence struggle, the Bloc did not move rapidly to consolidate its position of influence. Much of the circumspection manifested by the Bloc may have been induced by the confusion resulting from the struggle for power among the Algerian nationalist leaders. Several Bloc countries, however, have established diplomatic relations and made offers of economic assistance. Recognizing the important role of the military in the country, the Bloc can be expected to exploit opportunities through military assistance.

The close of 1962 saw a continued high level of Soviet Bloc economic activity in Ghana, in spite of occasional friction in day-to-day relations. Studies and surveys for a number of Bloc projects were either completed or initiated during the last 6 months. Although a shipment of Soviet arms, the first reported since the spring of 1961, arrived late in December, Ghanaian military leaders continue to be reluctant to accept large-scale Bloc military assistance. Nkrumah's decision to establish a permanent trade mission in East Berlin may have the important consequence of setting a precedent for other African countries.

The level of Bloc activity and influence in Guinea has remained static since early 1962, reflecting in part Guinean efforts to bring its relations with the East and West into better balance. The Guinean rapprochement with France is well advanced, substantially increased Western aid is on the way, and Western private capital again indicates interest in investments in Guinea.

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There were no major developments in Mali's economic relations with the Bloc. No new credits were extended, and the Bloc has shown no willingness to help Mali overcome its short-term financial difficulties. If France accedes to Mali's request to back its currency and to service its foreign exchange needs, Bloc penetration of the economy will be considerably less effective.

Poland extended to Morocco a credit of \$12 million to finance imports of capital equipment and made further progress in the construction of a sugar beet refinery. The USSR continued shipments of arms and military equipment and exerted pressure on the Moroccan Government to allow it to construct a shipyard at Tangier.

The USSR moved steadily ahead with its economic aid program in the Somali Republic and took the first steps involving military activities when it accepted 20 pilots and 30 maintenance personnel from the Somali Republic for training in the USSR. Implementation of Bloc credits has been confined largely to the final planning of projects; actual work is expected to begin on a number of undertakings in 1963.

Sudan's relations with Bloc countries did not change significantly during the period under review, but recent political and economic developments in the country may provide the Bloc with increased opportunities. Initial Sudanese inquiries for Western aid for the new 10-year economic development plan met with a less than enthusiastic response; if such aid is not forthcoming, the Sudanese may turn increasingly to the Bloc.

During the second half of 1962, there was a serious prospect of Soviet military assistance for the Republic of the Congo. Predicated on the withdrawal of the UN, the USSR reportedly was prepared to supply military support sufficient to end Katanga's secession. The successful UN military action in Katanga foreclosed this opening for the USSR, but future opportunities for Soviet penetration are likely to develop, as the problems of internal security and economic development can be expected to be chronic.

#### Asia

During the last 6 months of 1962 the Bloc continued to make important gains in Afghanistan and India, and there were increased possibilities of expanding its influence in Ceylon and Laos.

No new Bloc credits were extended to Afghanistan, but the Soviet position improved because of continued activity on numerous economic aid projects, an extensive military aid and training program, and strong political support to the Afghans in the conflict with Pakistan. The

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USSR did not hesitate to exploit Afghanistan's need for an export market by paying lower prices for Afghanistan's agricultural products and by pressuring for settlement of trade and aid accounts in hard currency earning exports, such as rugs and karakul. Soviet projects in oil exploration and industry development, the construction of grain silos, and improvements in the city of Kabul continued on schedule. New trade protocols were concluded with Poland and Czechoslovakia, and the continued influx of Soviet consumer goods insured the availability of local currency to implement the Soviet aid program.

The Sino-Indian border dispute in October 1962 did not noticeably affect Moscow's economic relations with India. In fact, following Soviet assurances of continued economic ties with India late in 1962, it appeared that the scope of Soviet economic involvement in India would increase. A protocol was signed to expand shipping between Soviet and Indian ports; by reciprocal arrangement, new consulates were established at Madras and Odessa; there were indications that Soviet-Indian cultural relations would continue to expand in 1963; and delivery of the MIG-21 aircraft that had been previously ordered by India from the USSR was assured, as were the facilities to manufacture them in India. The USSR continued to implement projects under old credit extensions, primarily in the fields of oil, steel, heavy machinery, and electric power. Expansion of the annual capacity of the Bhilai steel plant from 1 million to 2.5 million tons of steel ingots was initiated, and the Neyveli thermal electric power station in Madras State was inaugurated in August. Poland extended the only new Bloc credit during the period, \$32.5 million for the development of the coal industry. Indian trade with the Soviet Bloc increased sharply during 1962, but trade with Communist China declined to negligible proportions.

Settlement of the West Irian dispute with the Dutch in August 1962 was a setback to the objectives of the USSR in Indonesia. In December, there were an estimated 1,560 Bloc personnel in Indonesia; 75 percent of the promised Soviet Bloc military equipment had been delivered; and the total Indonesian indebtedness to the Bloc was \$825 million, of which more than \$750 million was for military aid. With the threat of war over, the Indonesian Government turned to the West for food, raw materials, and spare parts and tried to persuade Moscow to defer and reschedule its debt repayment for arms. As the year ended, Indonesia was preparing to receive a Soviet economic delegation to discuss possibilities for rescheduling Indonesian payments over a period of 25 years. In the negotiation, Indonesia will be subjected to Soviet pressure for special political advantages for the Indonesian Communist Party and for an increase in trade with the Soviet Bloc, which had already increased in 1962. Work on a number of Bloc projects continued during the period. The Asian Games Stadium and a subcritical nuclear assembly for Gadjah Mada University were completed in the fall.

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The Sino-Indian border conflict had reverberations in the Bloc's relations with two other Asian countries, Nepal and Pakistan. In Nepal, Communist China's aggression had a sobering effect on Nepalese officials and resulted in restrictions on Sino-Soviet cultural and propaganda activities in Nepal. During the review period the Bloc made moderate progress on five of its six projects in Nepal, however, and supplied some light aircraft and communications equipment. A special trading corporation to market Bloc goods and thus raise local currency to finance Bloc projects also was established.

Both Moscow and Peiping moved quickly to exploit Pakistan's extreme sensitivity to US and British arms aid to India and also to support domestic political opposition to SEATO and CENTO. Conditions appeared favorable at the end of the year for increased Pakistani trade with both Communist China and the USSR. Factors favorable to expanded cultural and propaganda activities also existed, and there was a possibility of increased Soviet aid for oil exploration.

A series of internal developments in Ceylon, centering mainly around political and economic instability, made conditions favorable for a further expansion of Bloc economic ties with that country. During the last 6 months of 1962, Ceylon extended its aid agreements with the USSR and Communist China for a further period of 5 years and made a rubber-rice payments agreement with Communist China. Ceylon's desire to continue to receive cheap rice under the rubber-rice deal was primarily responsible for the country's failure to give any official support to India in its conflict with Communist China. Slow but steady progress was made on a number of Bloc projects. Trade increased substantially, chiefly because of deliveries of Soviet petroleum products, Chinese purchases of rubber, and deliveries of Chinese rice. During the first 8 months of 1962, Ceylonese imports from and exports to the Bloc each increased about 40 percent in comparison with the comparable period in 1961.

Burma continued its neutralist policy during the last 6 months of 1962, but its relations with Peiping remained close. A Soviet credit for an irrigation dam was extended in August. An agreement for the purchase on credit of 1,000 tractors from Czechoslovakia was signed, and Rumania extended an undetermined amount of aid for the recently nationalized Burmese petroleum industry.

The de facto cease-fire in Laos transferred the East-West conflict to the political and economic sphere, and there were indications that the Bloc would use aid to influence the new Laotian Government. As of December 1962, Soviet aid included aircraft and aircraft technicians, \$3.9 million obligated for a dam, and an agreement to provide a hospital and a radio station. Peiping also extended \$4 million for various projects.

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There was relatively little Bloc activity in Cambodia during the period. Progress continued on the construction of a Soviet-built technological institute, but several Chinese Communist projects proved to be highly uneconomic.

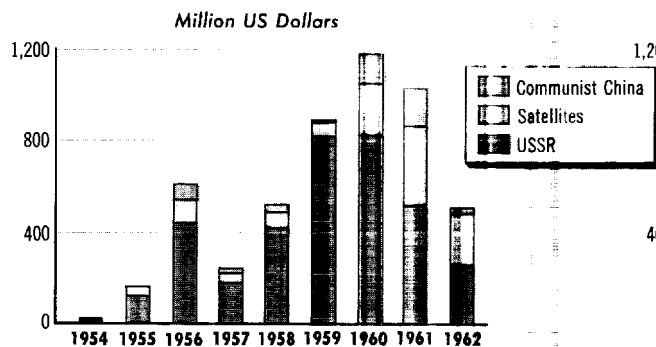
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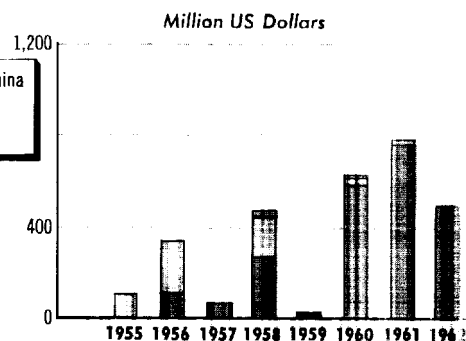
## BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

Selected Years, 1954-62

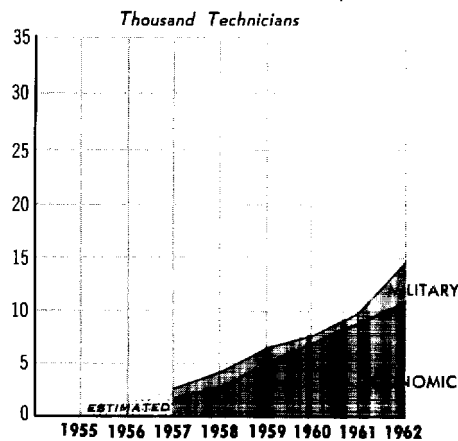
**BLOC ECONOMIC ASSISTANCE  
TO UNDERDEVELOPED COUNTRIES, 1954-62**



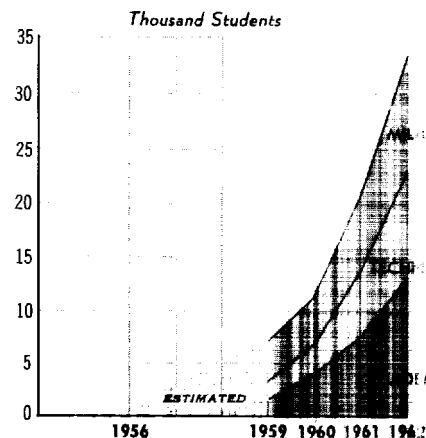
**BLOC MILITARY AID  
TO UNDERDEVELOPED COUNTRIES, 1955-62\*\***



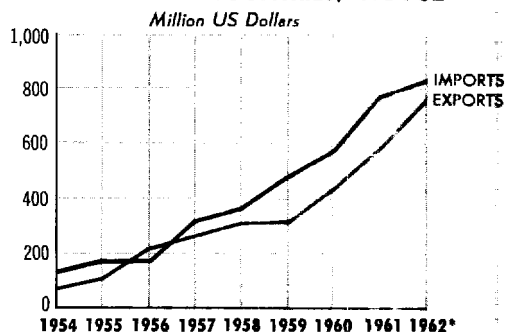
**BLOC ECONOMIC  
AND MILITARY TECHNICIANS  
IN UNDERDEVELOPED COUNTRIES, 1955-62**



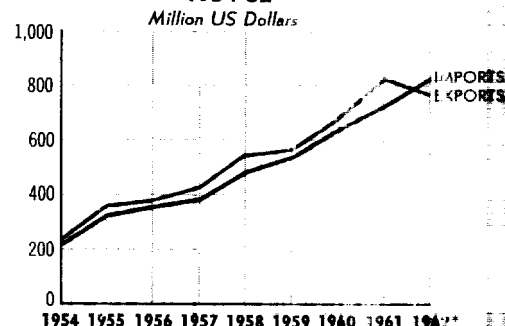
**STUDENTS  
FROM UNDERDEVELOPED COUNTRIES  
TRAINED IN THE BLOC, 1956-62**



**USSR TRADE WITH SELECTED  
UNDERDEVELOPED COUNTRIES, 1954-62**



**EUROPEAN SATELLITE TRADE WITH  
SELECTED UNDERDEVELOPED COUNTRIES  
1954-62**



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1. **Explain** the importance of the *Journal of the American Medical Association* (JAMA) in the history of medicine.

**SECRET**

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY – 31 DECEMBER 1962**

April 1963

**SECRET**

S-E-C-R-E-T

FOREWORD

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia (including Afghanistan and Pakistan); and (5) Iceland, Portugal, Spain, and Yugoslavia.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS  
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\* See the chart, Figure 1, following p. 12.

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During the second half of 1962 the USSR concluded new military aid agreements with India and possibly Yugoslavia and Yemen, bringing minimum total Bloc military aid extensions to underdeveloped countries to approximately \$2.9 billion. Deliveries of military equipment to Cuba,\* Ghana, Indonesia, Iraq, and the UAR under previous agreements were accelerated during the period, raising drawings on Bloc arms aid to at least 85 percent of the total known extensions.

### Technical Assistance

Of the 16,900 Bloc technicians in underdeveloped countries during the last half of 1962, 12,000 were economic technicians and 4,900 were military personnel. Reflecting the accelerated pace of Bloc military aid deliveries in recent years, the number of Bloc military technicians almost doubled during the period under review compared with an increase of only 25 percent in Bloc economic technicians. More than half the number of Bloc military personnel were located in Cuba and Indonesia, and almost three-fourths of the Bloc economic technicians were concentrated in the six countries of Cuba, India, Iraq, the UAR, Guinea, and Afghanistan.

During the last 6 months of 1962, about 8,050 nationals from underdeveloped countries enrolled in training programs in the Bloc -- the largest such increase since the inception of the program. Approximately 6,750 initiated academic and technical training, and almost 1,300 enrolled in Bloc military training programs. Reflecting the pattern of recent years, Indonesia and Cuba supplied most of the military trainees, Cuba and the UAR the bulk of the technical trainees, and Africa the largest share of academic trainees.

\* This report includes a preliminary estimate of Bloc military aid activities in Cuba.

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### Trade

Sino-Soviet Bloc trade turnover with underdeveloped countries during the first 6 months of 1962 reflected a trend evident since 1960 -- namely a rapid acceleration of Bloc trade with Cuba and a more moderate increase in aggregate trade with all other underdeveloped countries. The 27-percent increase in Bloc trade with underdeveloped countries in 1961 over 1960 was small in comparison with the quadrupling of Bloc trade with Cuba during the same period. Similarly, during the first half of 1962, Bloc trade with all underdeveloped countries, including Cuba, increased about 18 percent, rising to almost \$1.9 billion, whereas Bloc trade with Cuba alone increased almost 60 percent.

As a result of the increase in Bloc-Cuban trade, Bloc trade with Latin America in the first half of 1962 increased about 43 percent compared with the first half of 1961. Elsewhere in Latin America, trade remained relatively stable with the exception of a moderate increase in Bloc-Brazilian trade. Bloc trade with both Asia and Africa showed increases of 12 and 25 percent, respectively, whereas trade with the Middle East declined slightly, reflecting a decrease in Bloc trade with the UAR. Trade with the underdeveloped countries of Europe remained relatively stable, although Bloc-Yugoslav trade declined about 4 percent.

The year 1961 brought some variations from former patterns in the commodity composition of Bloc trade with underdeveloped countries. Largely because of a sizable increase of Cuban sugar imports, Bloc imports of food products from underdeveloped countries doubled over the previous year and accounted for more than two-fifths of all Bloc imports from underdeveloped countries. Imports of cacao declined in 1961, reflecting primarily a sharp decrease in Bloc imports of Ghanaian cacao. Bloc imports of coffee continued to increase. The large proportion of crude materials in total Bloc imports, more than 40 percent, continued to be dominated by rubber and cotton.

Among Bloc exports to underdeveloped countries, the share represented by machinery and transport equipment continued to increase, accounting for almost one-fourth of all Bloc exports in 1961. Manufactured goods remained the second most important category of Bloc exports to underdeveloped countries -- about 29 percent -- although their share in Bloc exports declined from 41 to 29 percent compared with the previous year. Petroleum and petroleum products continued to comprise an important part of Bloc exports, with Soviet exports of these products accounting for about 15 percent of the total Soviet exports to underdeveloped countries.

### Latin America

During the latter half of 1962, Bloc economic activities in Latin America were concentrated largely on two different fronts. In Cuba

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the USSR was interested in improving that country's economic situation in support of its roles as a Communist outpost in the Western Hemisphere and, for a time, as a Soviet military base. Elsewhere in Latin America the USSR emphasized a more normal development of economic relations by expanding trade and by granting development aid credits, particularly in Brazil.

It is not yet possible to determine what effect the missile crisis has had on the attitudes of the Cubans themselves regarding long-term relations with the Bloc. Castro suffered a serious personal affront, first by being made to appear a tool of Soviet militarism in consenting to the dangerous move into Cuba and then by being excluded from the high-level East-West negotiations that vitally affected Cuba's future and that finally resulted in the withdrawal of the very weapons for which he had compromised his independence. Castro may react by adopting a more independent political posture in regard to the USSR and attempting to recapture leadership of the revolutionary left within this hemisphere, much of which was estranged by his apparent subservience to Moscow.

Nevertheless, there is little that Castro can do to achieve economic independence from the Bloc, however much he may desire to reassert himself. With its growing import needs and its steadily declining export capacity, Cuba is falling increasingly into debt in its trade with the Bloc. During 1962 its imports from the Bloc exceeded its exports by about \$225 million. Bloc willingness to countenance this trade imbalance constituted its most important form of aid to Cuba, amounting to an ad hoc balance-of-payments loan. Next in terms of importance to the operation of the Cuban economy was the substantial number of Bloc technicians who were made available to Cuba to fill the gap left by the outflow of skilled technicians and managerial personnel alienated by the regime.

Soviet plans apparently envisage Cuba's increasing its capacity to feed itself and provide its own most basic necessities rather than pressing ahead rapidly toward industrialization. Thus such projects as a new fishing port and training programs to develop Cuba's fishing industry and longer range irrigation and power projects appear to have been receiving emphasis.

In Brazil, chronic weaknesses in the export sector of the economy, financial difficulties with Western lenders, and skyrocketing inflation prompted a new look at the possibilities of expanding economic relations with the Bloc on the part of both the Goulart government and the members of the business community.

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A \$70 million credit agreement signed with Poland represented an important innovation in Brazil's economic relations with the Bloc. Almost half the value of the credit was allocated for the construction of a 200,000-kilowatt (kw) thermal electric powerplant and for the purchase of 50,000 tons of railroad rails. Talks were underway concerning utilization of the balance, possibly for an aluminum refinery and a helicopter assembly plant. It also was rumored that Brazil was close to an agreement with the USSR for the construction of a \$1 billion hydroelectric project in the south and for a large-scale industrialization program in the depressed Northeast.

The Brazilian Government has itself taken a series of moves designed to foster an expansion in Brazil-Bloc trade. At the top of the list was a campaign to secure ratification of the numerous trade treaties signed early in 1961 with most Bloc countries. The government also was exploring the possibility of obtaining a multilateral payments clearing arrangement with Bloc countries such as was granted to Cuba so that credits to Brazil with the account of one Bloc country might be used to pay debts owed to another. Finally, negotiations were in progress at the year's end with the USSR on a broad new trade and payments agreement to replace the agreement which expired in December.

Bloc activity in Bolivia continued to be spearheaded by Czechoslovakia. Although a contract with Czechoslovakia for an antimony smelter was again stalled, the Czechoslovaks were pressing for acceptance of an even more attractive proposal that involved free technical assistance in developing Bolivia's sources of hydroelectric energy. Included in the offer were the preparation of an over-all plan for a power system, preparatory studies and surveys, the preparation of final engineering plans, and the establishment of a technical training center. Bolivia was not receptive to this offer, and no official action was taken.

After more than 2 years of negotiations, Chile finally signed a contract to sell a small amount of copper to the USSR. Several sales by both government and private enterprises in Chile raised the total value of copper sales to the Bloc during the period to more than \$3 million. Weakening foreign trade prospects in markets of the Free World also stimulated Chilean interest in bilateral barter exchanges with the Bloc. A barter deal was concluded with Poland of 2 million liters of Chilean wine and 5,000 tons of fishmeal in exchange for 1,500 tons of Polish butter.

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### Middle East

The last half of 1962 witnessed the continued consolidation of Soviet Bloc positions in the Middle East and was highlighted by further deliveries of military aid, exploitation of the revolt in Yemen, and renewed attention to the Aswan High Dam project. In the Syrian Arab Republic, however, a reported Soviet offer to construct a dam on the Euphrates River was countered during the first few days of 1963 by an announcement that the West German Government had agreed to provide the financing and that France also may participate.

Before the recent revolt in Iraq, Bloc influence and possibilities for further gains were stronger in that country than in any other area of the Middle East. In Baghdad the Soviet Embassy maintained constant contact with Kassem's government and armed forces. Iraq sided with the USSR on all important international issues, and the USSR continued its support for Iraq's claim to Kuwait. Implementation of the 1959 economic aid agreement also was accelerated, and during the latter part of the year Kassem dedicated a number of new factories which had been built under Soviet aid.

In the UAR, Nasser continued to maintain a balanced course between East and West, and there was a slight shift toward more friendly relations with the United States. This shift stemmed from early US recognition of the republican government in Yemen and the need for types of economic aid not available from the Soviet Bloc. Soviet military aid continued to be substantial. The major Bloc activity continued to be work on the Aswan High Dam. Increased concern that work was falling behind schedule resulted in vigorous efforts to speed up construction, including the replacement of both the Soviet and the UAR directors, the employment of some Western equipment as a result of Egyptian dissatisfaction with some of that furnished by the USSR, and a great increase in the number of Egyptian and Soviet personnel assigned to the project. The UAR also received small credits from Hungary and Poland during October.

Although the Bloc continued to maintain its presence in the Syrian Arab Republic through slow progress on various projects, the announcement during the first few days of 1963 that construction of the Euphrates Dam would be financed by West Germany and possibly France constituted a setback. Politically the Bloc made some progress. Pro-Communist and anti-Western elements which previously had been firmly suppressed by Nasser became increasingly vocal during 1962.

The fall of the imamate in September created a climate in Yemen that offers the Bloc both prospects and problems in its drive to expand Communist influence on the Arabian Peninsula. Before the end of

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the imamate, both the USSR and Communist China reduced the tempo of their aid programs in Yemen, apparently deciding to wait for more propitious conditions before attempting the next advance. Both countries quickly recognized and supported the new Yemen Arab Republic, and although details on renewed Soviet aid to Yemen were not available, assistance was being provided or was under consideration for five projects. The commercial position of the USSR in Yemen, including its virtual monopoly as a supplier of certain products such as petroleum, continued to be important.

Elsewhere in the Middle East, Soviet Bloc economic activity was relatively limited. Greece continued to be heavily dependent on Bloc markets for its agricultural exports. Soviet relations with Iran improved markedly following an Iranian announcement that no foreign missile bases would be permitted on Iranian territory. Cultural and educational exchanges between Iran and the USSR increased in number, and several general Soviet offers of economic assistance were followed by reports that the Iranian Government was willing to discuss Iranian-Soviet collaboration in power and irrigation development, a Soviet offer to build grain silos, and an increase in trade. Bloc economic relations with Turkey remained relatively unchanged during the last 6 months of 1962 although a Soviet-assisted glass factory was finally completed in October.

### Africa

Bloc activities in Africa continued to increase in the last half of 1962, with major attention focused on new diplomatic, cultural, trade, scientific, and technical cooperation agreements. Especially noteworthy in this connection were such agreements reached with Nigeria, Tanganyika, and the UAM\* states. In the southern third of Africa, there has been an increase in Bloc efforts to stimulate and support nationalist forces to open opportunities for penetration. Particularly important in this context has been the establishment of a Bloc diplomatic presence (but, interestingly enough, no economic aid presence) in the Tanganyikan capital, Dar-es-Salaam, which is a major point of contact with southern African nationalist groups and a transit point for African students going to the Bloc. New aid commitments, on the other hand, were minimal during the period.

The number of Bloc economic technicians employed in Africa increased by about 600 during the last half of 1962 (40 percent accounted for by newly independent Algeria), and the number of African students in the Bloc increased by almost 80 percent. Also notable has been an increase in Chinese Communist economic and cultural activity in both East and

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\* See the footnote on p. 52, below.

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West Africa. There was a significant development of shipping services to Africa and a partly successful effort to expand civil air routes. Shipping services from Bloc Baltic ports to West Africa increased, and Polish and East German lines began regularly scheduled service to a number of East and South African ports.

In spite of the initial advantage gained as a result of support for Algerian nationalism during the independence struggle, the Bloc did not move rapidly to consolidate its position of influence. Much of the circumspection manifested by the Bloc may have been induced by the confusion resulting from the struggle for power among the Algerian nationalist leaders. Several Bloc countries, however, have established diplomatic relations and made offers of economic assistance. Recognizing the important role of the military in the country, the Bloc can be expected to exploit opportunities through military assistance.

The close of 1962 saw a continued high level of Soviet Bloc economic activity in Ghana, in spite of occasional friction in day-to-day relations. Studies and surveys for a number of Bloc projects were either completed or initiated during the last 6 months. Nkrumah's decision to establish a permanent trade mission in East Berlin may have the important consequence of setting a precedent for other African countries.

The level of Bloc activity and influence in Guinea has remained static since early 1962, reflecting in part Guinean efforts to bring its relations with the East and West into better balance. The Guinean rapprochement with France is well advanced, substantially increased Western aid is on the way, and Western private capital again indicates interest in investments in Guinea.

There were no major developments in Mali's economic relations with the Bloc. No new credits were extended, and the Bloc has shown no willingness to help Mali overcome its short-term financial difficulties. If France accedes to Mali's request to back its currency and to service its foreign exchange needs, Bloc penetration of the economy will be considerably less effective.

Poland extended to Morocco a credit of \$12 million to finance imports of capital equipment and made further progress in the construction of a sugar beet refinery. The USSR exerted pressure on the Moroccan Government to allow it to construct a shipyard at Tangier.

The USSR moved steadily ahead with its economic aid program in the Somali Republic. Implementation of Bloc credits has been confined largely to the final planning of projects; actual work is expected to begin on a number of undertakings in 1963.

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Sudan's relations with Bloc countries did not change significantly during the period under review, but recent political and economic developments in the country may provide the Bloc with increased opportunities. Initial Sudanese inquiries for Western aid for the new 10-year economic development plan met with a less than enthusiastic response; if such aid is not forthcoming, the Sudanese may turn increasingly to the Bloc.

During the second half of 1962, there was a serious prospect of Soviet military assistance for the Republic of the Congo. Predicated on the withdrawal of the UN, the USSR reportedly was prepared to supply military support sufficient to end Katanga's secession. The successful UN military action in Katanga foreclosed this opening for the USSR, but future opportunities for Soviet penetration are likely to develop, as the problems of internal security and economic development can be expected to be chronic.

Asia

During the last 6 months of 1962 the Bloc continued to make important gains in Afghanistan and India, and there were increased possibilities of expanding its influence in Ceylon and Laos.

No new Bloc credits were extended to Afghanistan, but the Soviet position improved because of continued activity on numerous economic aid projects, an extensive military aid and training program, and strong political support to the Afghans in the conflict with Pakistan. The USSR did not hesitate to exploit Afghanistan's need for an export market by paying lower prices for Afghanistan's agricultural products and by pressuring for settlement of trade and aid accounts in hard currency earning exports, such as rugs and karakul. Soviet projects in oil exploration and industry development, the construction of grain silos, and improvements in the city of Kabul continued on schedule. New trade protocols were concluded with Poland and Czechoslovakia, and the continued influx of Soviet consumer goods insured the availability of local currency to implement the Soviet aid program.

The Sino-Indian border dispute in October 1962 did not noticeably affect Moscow's economic relations with India. In fact, following Soviet assurances of continued economic ties with India late in 1962, it appeared that the scope of Soviet economic involvement in India would increase. A protocol was signed to expand shipping between Soviet and Indian ports; by reciprocal arrangement, new consulates were established at Madras and Odessa; there were indications that Soviet-Indian cultural relations would continue to expand in 1963; and delivery of the MIG-21 aircraft that had been previously ordered by India from the USSR was assured, as were the facilities to manufacture

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them in India. The USSR continued to implement projects under old credit extensions, primarily in the fields of oil, steel, heavy machinery, and electric power. Expansion of the annual capacity of the Bhilai steel plant from 1 million to 2.5 million tons of steel ingots was initiated, and the Neyveli thermal electric power station in Madras State was inaugurated in August. Poland extended the only new Bloc credit during the period, \$32.5 million for the development of the coal industry. Indian trade with the Soviet Bloc increased sharply during 1962, but trade with Communist China declined to negligible proportions.

Settlement of the West Irian dispute with the Dutch in August 1962 was a setback to the objectives of the USSR in Indonesia. With the threat of war over, the Indonesian Government turned to the West for food, raw materials, and spare parts. Work on a number of Bloc projects continued during the period. The Asian Games Stadium and a subcritical nuclear assembly for Gadjah Mada University were completed in the fall.

The Sino-Indian border conflict had reverberations in the Bloc's relations with two other Asian countries, Nepal and Pakistan. In Nepal, Communist China's aggression had a sobering effect on Nepalese officials and resulted in restrictions on Sino-Soviet cultural and propaganda activities in Nepal. During the review period the Bloc made moderate progress on five of its six projects in Nepal, and a special trading corporation to market Bloc goods and thus raise local currency to finance Bloc projects also was established.

Both Moscow and Peiping moved quickly to exploit Pakistan's extreme sensitivity to US and British arms aid to India and also to support domestic political opposition to SEATO and CENTO. Conditions appeared favorable at the end of the year for increased Pakistani trade with both Communist China and the USSR. Factors favorable to expanded cultural and propaganda activities also existed, and there was a possibility of increased Soviet aid for oil exploration.

A series of internal developments in Ceylon, centering mainly around political and economic instability, made conditions favorable for a further expansion of Bloc economic ties with that country. During the last 6 months of 1962, Ceylon extended its aid agreements with the USSR and Communist China for a further period of 5 years and made a rubber-rice payments agreement with Communist China. Ceylon's desire to continue to receive cheap rice under the rubber-rice deal was primarily responsible for the country's failure to give any official support to India in its conflict with Communist China. Slow but steady progress was made on a number of Bloc projects. Trade increased substantially, chiefly because of deliveries of Soviet petroleum products, Chinese purchases of rubber, and deliveries of Chinese rice. During

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the first 8 months of 1962, Ceylonese imports from and exports to the Bloc each increased about 40 percent in comparison with the comparable period in 1961.

Burma continued its neutralist policy during the last 6 months of 1962, but its relations with Peiping remained close. A Soviet credit for an irrigation dam was extended in August, and an agreement for the purchase on credit of 1,000 tractors from Czechoslovakia was signed.

The de facto cease-fire in Laos transferred the East-West conflict to the political and economic sphere, and there were indications that the Bloc would use aid to influence the new Laotian Government. As of December 1962, Soviet aid included aircraft and aircraft technicians, \$3.9 million obligated for a dam, and an agreement to provide a hospital and a radio station. Peiping also extended \$4 million for various projects.

There was relatively little Bloc activity in Cambodia during the period. Progress continued on the construction of a Soviet-built technological institute, but several Chinese Communist projects proved to be highly uneconomic.

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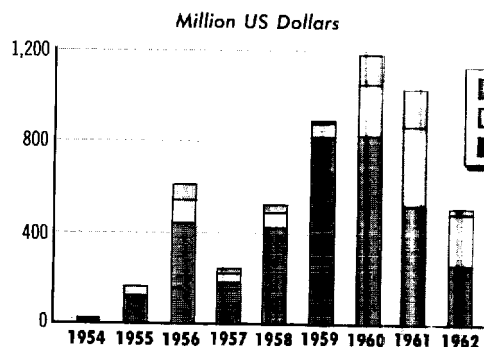
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Figure 1

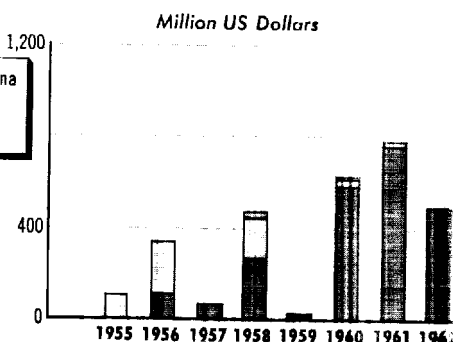
# BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

Selected Years, 1954-62

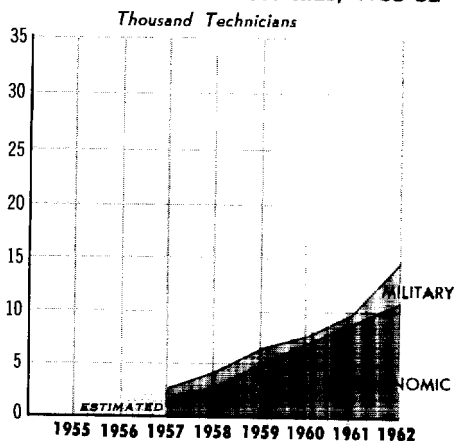
**BLOC ECONOMIC ASSISTANCE  
TO UNDERDEVELOPED COUNTRIES, 1954-62**



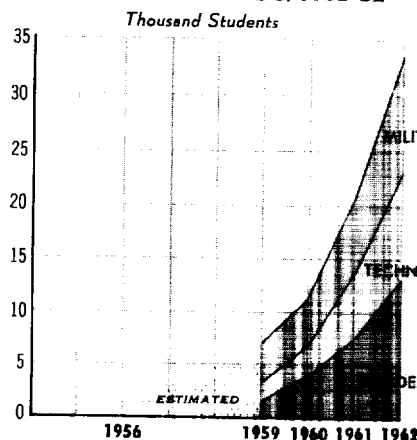
**BLOC MILITARY AID  
TO UNDERDEVELOPED COUNTRIES, 1955-62\*\***



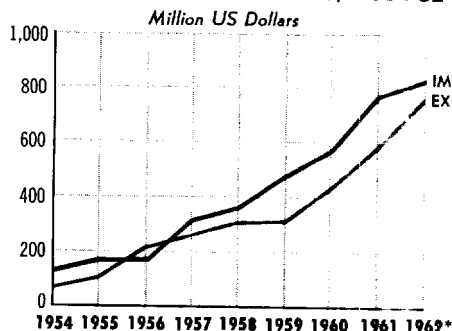
**BLOC ECONOMIC  
AND MILITARY TECHNICIANS  
IN UNDERDEVELOPED COUNTRIES, 1955-62**



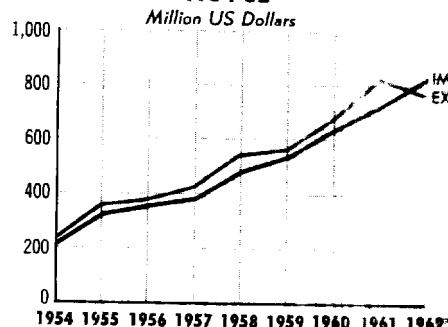
**STUDENTS  
FROM UNDERDEVELOPED COUNTRIES  
TRAINED IN THE BLOC, 1956-62**



**USSR TRADE WITH SELECTED  
UNDERDEVELOPED COUNTRIES, 1954-62**



**EUROPEAN SATELLITE TRADE WITH  
SELECTED UNDERDEVELOPED COUNTRIES  
1954-62**



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\*First 6 months of 1962 at an annual rate

\*\*Since Bloc Military Assistance for some countries cannot be distributed by 1970, figures are only estimates

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